

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA GAS COMPANY for)
 an order authorizing Applicant to)
 carry out the terms of a proposed)
 contract to supply interruptible) Application No. 38703
 natural gas service to the plant)
 of United States Gypsum Company at)
 Plaster City, California, and to)
 supply firm natural gas to dwellings)
 on Company premises.)

(Appearances and Witnesses are set forth in Appendix A.)

O P I N I O N

Applicant's Request

Southern California Gas Company filed the above-entitled application January 2, 1957, seeking authority to carry out the terms of a proposed contract with United States Gypsum Company (hereinafter referred to as Gypsum), a copy of which is attached to the application as Exhibit 1. Applicant requested ex parte authorization of this contract which might result in reducing the supply of interruptible gas to the Imperial Irrigation District. Under date of January 15, 1957, the Commission's staff addressed a letter to the District asking for comments. On January 26, 1957, the District replied, entering a protest against the applicant's proposal, whereupon the matter was set for public hearing.

Public Hearing

After due notice, public hearing was held on this application in Los Angeles before Examiner Manley W. Edwards on February 19, 1957. Applicant presented three exhibits and testimony by three witnesses in support of its application. Gypsum presented testimony through one witness. The District presented six exhibits and testimony by one witness to support its protest. The Commission staff

and other parties cross-examined the witnesses for the purpose of developing a complete record to aid the Commission in deciding this matter. Closing summary statements were filed on February 26, 1957, and the matter now is ready for decision.

Proposed Agreement with Gypsum

The agreement provides that applicant shall sell and deliver to Gypsum interruptible natural gas for use in its gypsum kettles, calciners, board kiln furnaces, steam boilers and other industrial equipment located upon its premises at Plaster City, Imperial County, California. Natural gas service will also be made available for domestic uses to the occupants of dwellings located on Gypsum's premises at Plaster City. Applicant agrees to install a gas main extension in accordance with its Rule and Regulation No. 20 except that instead of Gypsum's paying its portion of the cost of the extension in a lump sum, payment will be made over a period of ten years, as hereinafter discussed. A copy of Rule and Regulation No. 20 is attached to the application as Exhibit C. The Commission jurisdictional clause is included in the agreement and a protective clause regarding the cost of installing and removing service facilities if Gypsum terminates the contract prior to the expiration of the initial term, which is ten years.

Proposed Construction, Cost, and Advance Payment

Applicant agrees to install a gas transmission main, approximately 18 miles in length, consisting of approximately 62,280 feet of 8-inch main and 34,000 feet of 6-inch main, running from its 8-inch trunk line at the intersection of Fourth Street and Villa Avenue in El Centro, westerly and paralleling State Highway XI-Imp.-12 through the town of Seeley, California, to the gypsum plant, and approximately 3,400 feet of 2-inch and 3-inch distribution main to distribute gas to occupants of dwellings on Gypsum's property. The estimated cost of the proposed gas main extension to serve Gypsum is \$410,500; applicant expects to install at its own expense, services, meters and regulators at an approximate cost of \$5,025.

The length of main extension required to serve Gypsum is in excess of the length which applicant would install at its own expense under its Rule and Regulation No. 20. Gypsum agrees to pay applicant for the excess length of main in the amount of \$236,500. The agreement provides for a deviation from the applicant's rule in that the said sum of \$236,500 shall be paid by Gypsum in monthly payments of \$2,625.63, instead of a lump sum, until the principal sum of \$236,500 plus interest at the rate of 6 per cent per annum on the unpaid balance has been paid. If Gypsum (1) discontinues operating its equipment before the expiration of the term of this contract, or (2) fails to take its total requirements of interruptible natural gas when such gas is available, or (3) causes the contract to be canceled prior to its expiration date as a result of the default of Gypsum, it shall pay applicant on demand a sum equal to the entire unpaid balance of \$236,500, plus accrued interest at the rate of 6 per cent per annum, plus applicant's cost of installing and removing such of its service and/or distribution facilities as have been installed on Gypsum's property. Applicant agrees to reserve a delivery capacity of 148,000 cubic feet per hour for interruptible natural gas service to Gypsum. An annual usage of interruptible gas at the rate of 1,080 million cubic feet is anticipated initially and Gypsum expects this usage to continue at least during the term of the contract. The initial term of the contract is specified as ten years.

Proposed Rates

Applicant proposes to charge Gypsum for all interruptible gas delivered at its filed Schedule No. G-52, except that Special Conditions 6 and 7 will not be applicable to this service. These special conditions relate to service for short term operations during the off-peak season without standby fuel and equipment, and to contract requirements of one year with extension from year to year thereafter with a thirty-day termination provision. Applicant proposes

to furnish firm gas for domestic use under Schedule No. G-7.

Franchises

Applicant proposes to install transmission and distribution mains to serve Gypsum entirely within the unincorporated area of Imperial County, except in that portion located within the City of El Centro, California. Applicant was granted a fifty-year franchise by Ordinance No. 182 of the County of Imperial, adopted March 1, 1948, by the Board of Supervisors, and was granted a certificate of public convenience and necessity by this Commission in Decision No. 41706, dated June 15, 1948, in Application No. 29311, to exercise the rights and privileges of the franchise. Applicant transports and distributes gas in the City of El Centro under an indeterminate franchise granted by Ordinance No. 541, adopted January 19, 1949, and under a certificate of public convenience and necessity granted to it by this Commission by Decision No. 43007, dated June 21, 1949, in Application No. 30188.

Economics of Project

Applicant represents that the furnishing of interruptible and firm gas service to Gypsum and domestic customers, respectively, will not result in any burden on its other customers but will be of benefit and advantage to them. Applicant alleges that the authorization of the service to Gypsum will assist it in meeting its growing firm load and will enable it to furnish and supply natural gas service to an area not now receiving such service and that net annual sales and revenues in its Imperial Valley Division will be increased 10.6 per cent and 8.0 per cent, respectively, based on the year ended November, 1956. The application states that the increased gross revenue to applicant amounts to approximately \$61,000, due to transfer of certain volumes of gas from steam plants served under Schedules G-52 and G-55. Exhibit No. III attached to the application sets forth the effect on rate of return of the proposed extension to Gypsum. An increase in total company rate of return of 0.005 per

cent with this added service is shown for the estimated year 1957.

Applicant states that there is a reasonable expectation that it will have sufficient out-of-state gas during the initial ten-year term of the contract to supply the estimated requirements of Gypsum, subject to system curtailments.

Applicant states that the proposed contract will not become effective unless authorized by the Commission not later than March 31, 1957. Applicant alleges that installation costs of the transmission main will be substantially increased if the construction contract is awarded later than March 31, 1957, since the estimated costs of construction stated in the application are based on slack season or winter construction.

Position of Imperial Irrigation District

The District took the position that the only parties benefited by this contract are the applicant and Gypsum and, in its opinion, such benefits would be more than offset by an increase of approximately \$100,000 or more annually in the District's cost of fuel for steam-electric generation. The District represents that because of line size limitations between Desert Center and El Centro, there will be less gas available for steam-electric generation during peak load periods if this contract is authorized, and that it will have to burn fuel oil (which now is more expensive than gas) to replace part of the peak load gas which will be sold to Gypsum. If the District finds it necessary to raise the electric rates because of this contract, such increase will fall on its customers who, for the large part, are also customers of the applicant. Thus the District contends that this contract is not in the public interest. The District represents that its interruptible rate should be reduced by five cents per Mcf in order to avoid this increase in cost and to keep its rate on an equivalent basis to that which the applicant offers for steam-electric generation in the Los Angeles area.

Applicant's Position

The applicant's position is that Gypsum and the domestic customers which it proposes to serve are in its service territory and are entitled to gas service; that Gypsum's interruptible load would be steady and not subject to the violent hourly, daily and seasonal variations that are characteristic of the District's interruptible load; that the present line has ample capacity for all firm gas load in the Imperial Valley and increasing the line capacity or adding a compressor station is not justified for the District's peak load service; that the District's load has grown to such a point that it is now necessary to limit the peak quantity of gas available to the steam-plant; and that a rate reduction of one cent per Mcf should be effected because of the lower priority position of the District's interruptible gas load.

Position of Other Parties

Counsel for the City of Los Angeles requested that there be incorporated herein pertinent and specific portions of the record in Application No. 37024, by which proceeding the applicant herein sought a certificate to serve interruptible natural gas to certain cement companies. Such incorporation by reference has been made and the evidence thus included has been considered. The position of the City in the instant proceeding is that interruptible customers located at a distance from the utility's area of principal operations occupy a position of mere third priority, compared to firm customers and other interruptible customers; that prevailing smog conditions require the maximum use of natural gas in the Los Angeles area and that Gypsum should not be served if, from the record, such service will reduce the supply of gas in the Los Angeles metropolitan area; that the costs of the proposed new service should be fully paid by Gypsum.

The California Farm Bureau Federation concludes that applicant should be authorized to carry out the terms of the proposed contract with Gypsum and that the order should be conditional upon applicant working out an arrangement with the District which would assure the District of receiving a percentage of its requirements on the same equitable basis as other interruptible customers. Additional volumes may be received by the District in the surplus block at a lower rate.

A customers' representative was of the opinion that the proposals of applicant relating to delivery capacity and price of gas are unusual and uncalled-for, although the load factor of Gypsum is more satisfactory than that of the District. This party felt that no final disposition of the matter should be made until the Commission has disposed of other applications now before it.

Gypsum appeared as an interested party and urged approval of the proposed contract and applicant's advice letter for revising special condition 4 of its Schedule No. G-52 as shown in Exhibit No. 2 and providing for curtailment of steam electric plants in Imperial Division before other interruptible customers. Gypsum states that it negotiated the present contract on the assumption that it would not be subject to the extreme operating fluctuations and curtailments that would be involved if the available gas supply were apportioned and curtailed among all interruptible customers, including the District, equally. If such were the case change-overs, during periods of gas curtailment, would be so frequent that gas service would not be economically feasible to Gypsum. Gypsum would wish an opportunity to reconsider whether it would desire to contract for the gas service if the service to it is not in some other way permitted and assured without extreme operational fluctuations and curtailments.

Principal Issue

The principal issue before us is clearly whether or not the deviation from the extension rule requested by applicant should be permitted. If Gypsum had advanced its share of the cost under the extension rule, service would be furnished without requiring Commission approval as its plant is located within applicant's service territory. The arrangement by which Gypsum proposes to pay its share of the cost of the extension appears beneficial to the applicant as the rate of interest is favorable and the applicant by this extension has an opportunity to improve its earning position in the Imperial Valley. In our opinion the deviation should be permitted.

District's Increased Cost Issue

With regard to the issue that the District's cost of production would be increased if this application is authorized, which in turn might be reflected in increases in electric rates to some of the applicant's customers, the Commission notes that the statistics furnished by and testimony of the witness for the District show a sharp rate of growth of electricity produced by its steam plants over the past few years and into the foreseeable future. A reasonable conclusion is that the District could use more peak load gas than can be made available over the existing gas lines. However, the applicant alleges that the economics are such that it is not warranted in increasing the pipeline capacity for the steam plant interruptible load at its own expense. Whether or not this application is authorized, it appears to the Commission that the district will have to buy more fuel oil than previously during peak periods. Obviously, as long as fuel oil costs more than gas for an equivalent number of heat units, its cost will increase. These cost increases might be covered by revenue from the District's increased load. We do not have control and cannot predict as to whether or not the District will have to

increase its electric rates. This issue is too uncertain to warrant the Commission in denying the application.

Priority Issue

Another issue involved is the matter of priority. Applicant has proposed a revision of its Schedule No. G-52 which will set forth in the tariff a provision for the curtailment of service to steam electric plants in the Imperial Division before other interruptible customers in that area are curtailed. In view of the curtailment practice which has been followed in the Imperial Division by applicant, and which is covered by the contract between applicant and the District, we find no evidence in this proceeding to change this basis and the proposed revision accordingly will be authorized.

In order to give some recognition to the effect of the Gypsum load on the availability of gas to the District's steam plant at El Centro, applicant proposes to reduce the G-52 rate by one cent per Mcf in all blocks for gas served to steam electric generating plants in the Imperial Division. The District requested a five-cent reduction in its rates. We will authorize the reduction in rate to the District proposed by applicant and hereby find that such reduction is reasonable. The District's request for a five-cent reduction does not appear to be justified by the record in this proceeding, and will not be authorized at this time. We would point out, however, that applicant is presently before this Commission in a rate increase proceeding (A-38787) and that the District may present fully its position with regard to its priority or rates for service in the Imperial Division.

Future Costs and Interruptions Issue

The Commission desires to place the District and Gypsum on notice that there are proceedings presently pending before it which contain issues concerning the cost of gas and priority of service of large interruptible gas customers. This Commission has continuing

jurisdiction of utility rates and service and may, from time to time, order changes in rates and priority of service which may affect the conditions of service to Gypsum which are proposed by applicant in this proceeding. Applicant should advise Gypsum of this situation.

The Issue Posed by the City of Los Angeles

The main issue posed by the City of Los Angeles concerns smog conditions. We are fully appreciative of the position of the City of Los Angeles with respect to the supplying of gas to new customers outside of the Los Angeles Basin area. However, in this instance, technically we are called upon only to decide as to the reasonableness of applicant's request for a deviation from its filed rules. Gypsum is entitled to service and we do not find that public interest as reflected by the position of the City requires that we deny the request of applicant.

Findings and Conclusions

After considering the evidence of record the Commission finds and concludes that the contract should be authorized. Of course, in entering into this contract, Gypsum takes the risk that interruptible gas may not be available for as long a time, and to the extent, anticipated by applicant by reason of changes in priority or other factors.

The problem of increasing the pipeline capacity for the steam plant interruptible load is a matter which should be studied cooperatively by the applicant and the District. All methods of meeting the District's requirements should be fully explored to determine the most economically feasible solution.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS HEREBY ORDERED that:

1. Applicant be and is authorized to carry out the terms and conditions of a proposed contract with the United States Gypsum Company attached to the application as Exhibit 1.
2. Applicant shall open discussions with the Imperial Irrigation District, not later than April 30, 1957, for the purpose of determining the conditions under which additional gas service can be supplied to the latter, and shall report the results of each such discussion to this Commission.
3. Applicant shall file with the Commission within thirty days after the execution date of the contract three certified copies of the contract as executed.
4. Applicant shall file with this Commission in accordance with General Order No. 96 its revised Schedule No. G-52 substantially as shown in Exhibit No. 2 and on not less than five days' notice to this Commission and to the public, make such filing effective on the date that gas service is first furnished to the United States Gypsum Company under the contract authorized herein.
5. Applicant shall notify this Commission in writing of the date service is first furnished under the contract herein authorized, within thirty days after such commencement of service.

The authorization herein granted will expire if not exercised within one year from the date hereof. The effective date of this order shall be on the date hereof.

Dated at Los Angeles, California, this 26th day of March, 1957.

[Signature]
President
[Signature]
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A

LIST OF APPEARANCES

For Applicant: T. J. Reynolds and Harry P. Letton, Jr., for Southern California Gas Company.

Protestants:

Horton and Knox, by Reginald L. Knox, Jr., for Imperial Irrigation District; James H. Carter for Imperial Irrigation District.

Interested Parties: Roger Arnebergh, City Attorney, by Alan G. Campbell, Assistant City Attorney and Robert W. Russell, Assistant General Manager, Public Utilities and Transportation for the City of Los Angeles; Gibson, Dunn & Crutcher, by Richard L. Wells for United States Gypsum Company; Bert Buzzini for California Farm Bureau Federation; W. D. MacKay for Challenge Creamery & Butter Association; Herbert McCartney for Holly Sugar Corporation.

For Commission Staff: George C. Young.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by Herbert Nash, Frank M. Foster, and T. S. Miller.

Evidence was presented on behalf of United States Gypsum Company by Harley Hammer.

Evidence was presented on behalf of the Imperial Irrigation District by Fred Hess.